

1976
ANNUAL
REPORT
PENNINGTON'S STORES
LIMITED

Pennington's



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FINANCIAL HIGHLIGHTS

	January 29, 1977* (56 weeks)	Change %	January 3, 1976 (53 weeks)
Sales	\$26,187,484	+14.4	\$22,882,009
Income after taxes	2,136,952	-13.7	2,475,494
Earnings per share	\$1.05	-13.7	\$1.22
Working capital	5,691,921	+20.3	4,730,933
Working capital ratio	2.86:1		3.28:1
Dividends	876,328	+ 8.1	810,800
Dividends per share	43.2¢	+ 8.0	40¢
Number of stores	71	+ 9.2	65

*The results include adjustments arising from the application of the Anti-Inflation Act and regulations which were effective commencing October 14th, 1975. Had these adjustments not been made, sales for 1977 would have been \$27,177,484 and net earnings per share would have been \$1.30.

27,177,484
990,000
26,187,484

Board of Directors

Sol Armel
Donald Carr, Q.C.
William Drevnig
Albert Sherman
Jack Sherman
Mark Vansittart

Officers

William Drevnig – *President*
Albert Sherman – *Vice-President and Secretary*
Sol Armel – *Executive Vice-President*
Jack Sherman – *Vice-President*
Emanuel Asher – *Vice-President, Retail Operations*
William Farewell, C.A. – *Treasurer*

Transfer Agent & Registrar

The Canada Trust Company

Auditors

Laventhol & Horwath

Exchange Listing

The Toronto Stock Exchange
Ticker PNS

Head Office

PENNINGTON'S STORES LIMITED
40 Samor Road
Toronto, Ontario M6A 1J6
Telephone: 787-4973

TO OUR SHAREHOLDERS

Fiscal 1976 was an extremely difficult and challenging year for Pennington's. It marked the first time in more than 30 years where Canadian business was subject to restrictions on wages and profits. Although the controls programme has had a short term adverse effect on your company's net earnings, it has helped to break the general inflationary spiral which had developed in Canada over the past four years. We are in agreement with the concept of the legislation and feel long term benefits will result provided everyone continues in a spirit of co-operation.

Your company made a conscientious effort during the year to comply with all aspects of this Act, however significant "excess revenue" was generated in the second half of the year. Had the May Federal Government Budget proposal been implemented for the current year, the company would not have been in an "excess revenue" position. We are committed to divest ourselves of this excess revenue in Fiscal 1977.

Last November, the Federal Government introduced a quota system restricting imports of clothing to help protect the market for domestic clothing manufacturers. These restrictions are based on 90% of 1975 unit purchases. Pennington's has been in the import business for many years and this source

of merchandise has been steadily increasing in importance. We will not be adversely affected by the new restrictions as our 1975 level of imports is adequate to meet our needs.

Although retail sales in Canada last year experienced a better than 14% gain in each of the first two quarters, a pronounced slowdown developed as the second half progressed and this accentuated competition for the consumer's discretionary dollar. The challenge for retailers was to increase sales productivity significantly in the face of lower gross margins and slower sales growth.

Pennington's total sales in the current year achieved an increase of 13.6% on a comparable basis with the preceding year. The quarterly sales performance experienced a consistent upward trend over the course of the year. The first, second and fourth quarters recorded gains of slightly more than 12.5% while the third quarter experienced a somewhat higher increase of 17.1%.

Outlook

We anticipate a further decline in personal disposable income growth this year which should also be reflected in a similar pattern for retail sales. We expect more difficult business conditions in the first half with some improved performance in prospect for the second half of the year.

Your Management is presently giving serious consideration to entering the U.S. market. The type of operation would be similar to Pennington's merchandising concept in Canada. We are assessing the approach to such an undertaking and have not ruled out the acquisition route as a method of entering this market.

Appreciation

The year's results could not have been achieved without the loyal support of our customers, employees and suppliers. On behalf of our Board of Directors and Senior Management, I take this opportunity to express our appreciation for their dedication and co-operation in what was a difficult year.

William Drevnig
William Drevnig
President

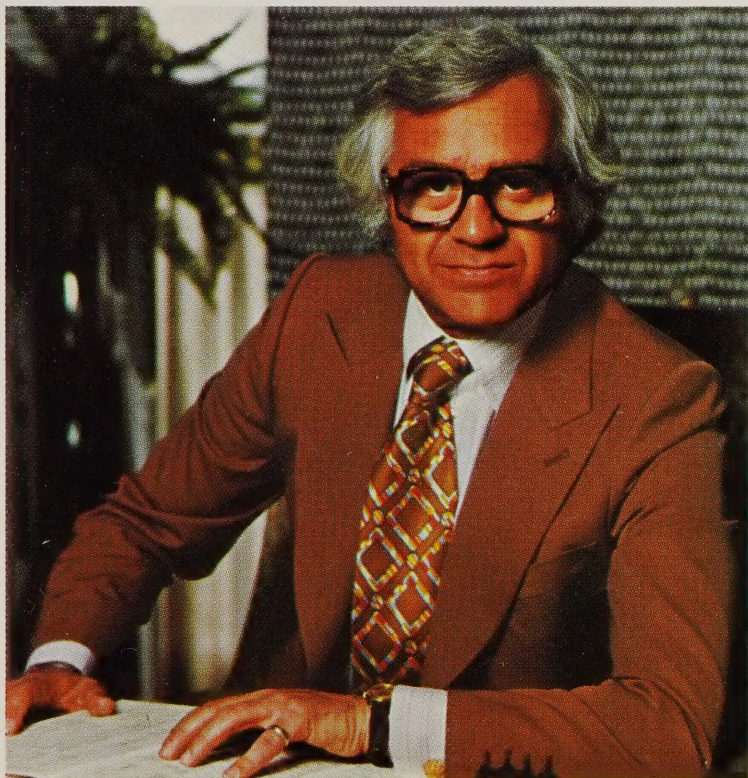


Financial Results

Total sales for the 56 weeks ended January 29th, 1977 were \$26,187,500 as compared to \$22,882,000 for the 53 weeks ended January 3rd, 1976. Total sales volume on an annual basis increased 13.6% over the prior year. The company's fiscal year was changed to the nearest Saturday to the end of January in each year, to be more in line with the seasonal nature of our business.

Net income for the year decreased from \$2,475,500 in the prior year to \$2,137,000 which is the first time that Pennington's has reported a decline in annual earnings in the eight years as a public company. Earnings per share were \$1.05 as compared to \$1.22 based on the weighted average number of common shares outstanding. Your company is subject to the income, dividend and compensation restraints of the Anti-Inflation Act. Sales and net income before taxes for the current year reflect adjustments for \$990,000 in apparent "excess revenue" which arose during the second half of the year. These adjustments resulted in a decrease in net income of approximately 25 cents per share.

Your company's financial position remains



strong with \$3,000,000 in cash and short term investments on hand at year end. The decline in the current ratio from 3.28:1 to 2.86:1 reflects adjustments for excess revenue to which we have previously referred.

Store Development

A total of six stores were opened during the year and in spite of the fact that four of these locations were opened late in the second half, average sales per store rose to a new high of \$366,000. Capital expenditures totalled \$761,258 which was down slightly from the previous year. We are continuing our programme of upgrading many of our existing stores as a means to improve our productivity. A total of five stores were refurbished last year and present plans call for the renovation of five additional locations in the current year. We have opened a total of three stores to date this year in the following locations: Eaton Centre, Metropolitan Toronto; Oxford Square, Calgary, Alberta; and Jackson Square, Hamilton, Ontario. Two or three additional locations are under consideration which could open before the end of the year. Capital expenditures of \$500,000 are estimated for fiscal 1977.

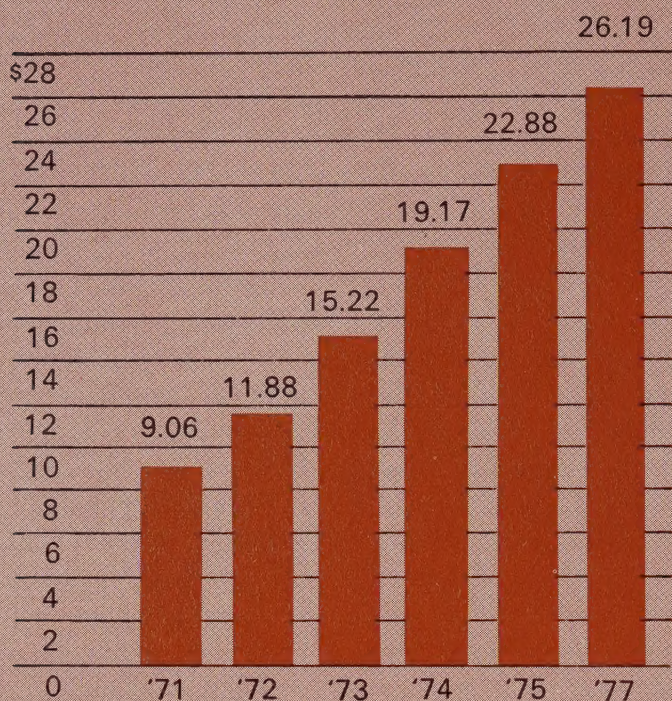
Dividends

Total dividend payments amounted to \$876,328 which was equal to 43.2 cents per share. This compares with a tax-paid dividend of 40 cents per share in fiscal 1975. The increase of 3.2 cents per share was the maximum allowed under the Anti-Inflation Act. It is your company's policy to pay out approximately 50% of the previous year's earnings in dividends under normal circumstances.

Sol Arnel
Executive Vice President

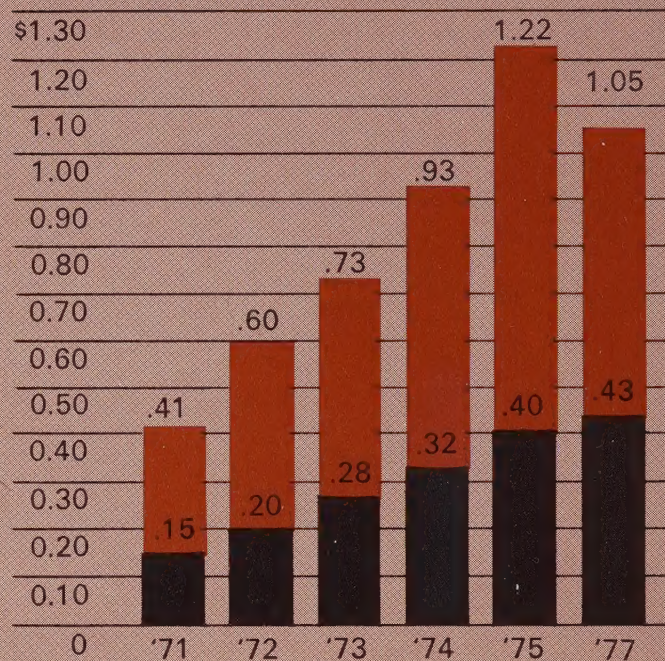
GROWTH OF SALES

in millions of dollars



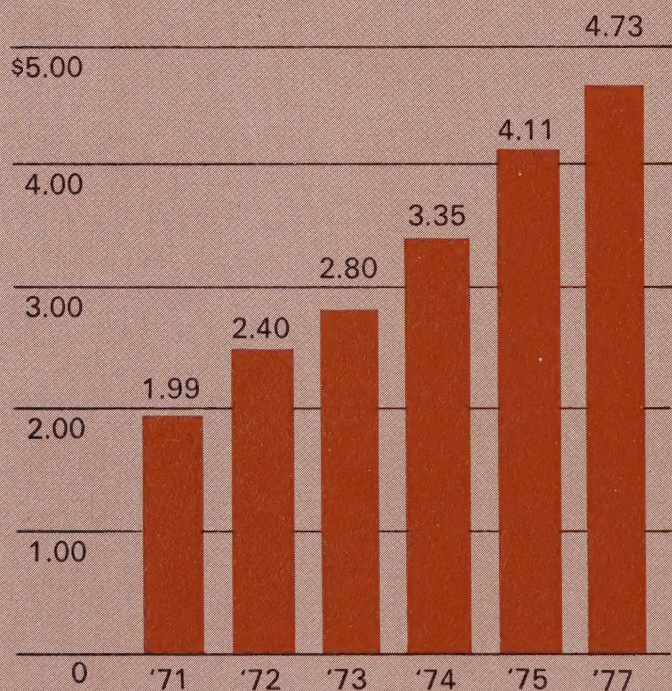
GROWTH OF EARNINGS PER SHARE

dividends earnings



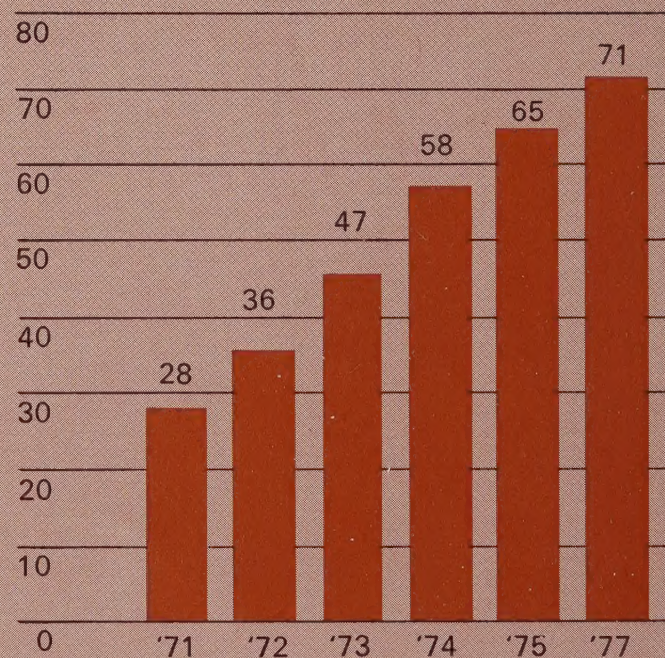
GROWTH IN SHAREHOLDERS' EQUITY

in dollars per share



GROWTH IN NUMBER OF STORES

units in operation at end of year



STATEMENT OF INCOME

	56 weeks ended January 29, 1977	53 weeks ended January 3, 1976
Sales	\$26,187,484	\$22,882,009
Cost of sales, selling and administrative expenses	21,610,267	17,578,346
Depreciation and amortization	439,265	330,669
	22,049,532	17,909,015
Income before taxes	4,137,952	4,972,994
Income taxes (Note 7)	2,001,000	2,497,500
Net income (Note 2)	\$ 2,136,952	\$ 2,475,494
Earnings per share	\$1.05	\$1.22

STATEMENT OF RETAINED EARNINGS

	56 weeks ended January 29, 1977	53 weeks ended January 3, 1976
Retained earnings, beginning of period	\$ 6,928,286	\$ 5,406,692
Net income for year	2,136,952	2,475,494
	9,065,238	7,882,186
Dividends, ordinary	876,328	—
Dividends from tax paid income	—	810,800
15% tax paid on portion of undistributed income	—	143,100
	876,328	953,900
Retained earnings, end of period	\$ 8,188,910	\$ 6,928,286

PENNINGTON'S STORES LIMITED

BALANCE SHEET

ASSETS

	January 29, 1977	January 3, 1976
Current:		
Cash and short-term investments at cost (which approximates market)	\$ 3,030,820	\$ 2,042,363
Accounts receivable, trade	26,992	248,704
Accounts receivable, other	185,412	101,194
Inventories	4,963,059	4,141,856
Prepaid expenses and sundry assets	74,149	199,256
Loan to employee	—	72,500
Deferred income taxes (Notes 2 and 7)	478,000	—
	<u>8,758,432</u>	<u>6,805,873</u>
Fixed:		
Furniture and fixtures, leasehold improvements	4,839,936	4,096,062
Motor vehicles	56,567	49,703
	<u>4,896,503</u>	<u>4,145,765</u>
Less accumulated depreciation	1,751,782	1,323,037
	<u>3,144,721</u>	<u>2,822,728</u>
Excess of cost over book value of businesses acquired	947,089	947,089
	<u>\$12,850,242</u>	<u>\$10,575,690</u>

LIABILITIES

	January 29, 1977	January 3, 1976
Current:		
Accounts payable and accrued liabilities	\$ 2,065,283	\$ 1,603,899
Income taxes payable	11,228	471,041
Deferred revenue (Note 2)	990,000	—
	<u>3,066,511</u>	<u>2,074,940</u>
Deferred income taxes	<u>192,258</u>	<u>179,127</u>

SHAREHOLDERS' EQUITY

Capital stock (Note 3):		
Authorized:		
6,000,000 Common shares, without par value		
Issued:		
2,029,000 Shares (January 3, 1976 – 2,027,000)	1,402,563	1,393,337
Retained earnings (Note 4)	8,188,910	6,928,286
	<u>9,591,473</u>	<u>8,321,623</u>
	<u>\$12,850,242</u>	<u>\$10,575,690</u>

On behalf of the Board:

William Drevonig

(Director)

S. Amel

(Director)

STATEMENT OF CHANGES IN FINANCIAL POSITION

	56 weeks ended January 29, 1977	53 weeks ended January 3, 1976
Financial resources were provided by:		
Net income	\$ 2,136,952	\$ 2,475,494
Expenses not requiring current outlay of working capital:		
Depreciation and amortization	439,265	330,669
Deferred income taxes	13,131	32,287
Working capital provided by operations	2,589,348	2,838,450
Issue of common stock for cash under employee stock option plan	9,226	—
Current portion of loan to employee	—	72,500
Repayment received on loan to employee	—	7,600
	<u>2,598,574</u>	<u>2,918,550</u>
Financial resources were used for:		
Purchase of fixed assets (net)	761,258	787,789
Dividends	876,328	810,800
15% tax paid on portion of undistributed income	—	143,100
	<u>1,637,586</u>	<u>1,741,689</u>
Increase in working capital	960,988	1,176,861
Working capital, beginning of period	4,730,933	3,554,072
Working capital, end of period	<u>\$ 5,691,921</u>	<u>\$ 4,730,933</u>

AUDITORS' REPORT

To the Shareholders of
Pennington's Stores Limited

We have examined the balance sheet of Pennington's Stores Limited as at January 29, 1977 and the statements of income, retained earnings and changes in financial position for the 56 weeks then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at January 29, 1977 and the results of its operations and the changes in financial position for the 56 weeks then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Toronto, Ontario
April 20, 1977.

Laventhol & Horwath
Chartered Accountants

PENNINGTON'S STORES LIMITED

NOTES TO FINANCIAL STATEMENTS

January 29, 1977

1. Accounting policies :

The accounting policies of the company are in accordance with generally accepted accounting principles and are applied on a consistent basis. The following is a summary of the significant accounting policies followed in the preparation of these financial statements :

(a) Inventories :

Inventories are priced at the lower of average cost and market determined by the retail method ; market being net realizable value less normal profit margin.

(b) Fixed assets :

Fixed assets are stated at cost ; depreciation is being provided at the following annual rates :

Furniture and fixtures	—10% straight-line method
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Leasehold improvements	—10% straight-line method
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Automobiles	—30% reducing balance method
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Profits or losses arising on the disposal of assets are included in income for the period in which the profit or loss arose. Maintenance and repair expenses are written off in the period the expenditure is incurred.

(c) Income taxes :

The company follows the allocation method of reporting taxes on income. Under this method, recognition is given in the accounts to the tax effects of the annual difference between reported income and taxable income which results from the company deferring income to future periods (Note 2) and claiming for income tax purposes depreciation in excess of amounts reported in the accounts.

(d) Intangible assets :

In 1969 the company acquired the net assets of the businesses carried on by certain stores throughout Western Canada for an amount in excess of their book

values. This excess is not being amortized as, in the opinion of management, it has continuing value.

(e) Earnings per share :

Earnings per share are based on 2,028,300 shares which represented the weighted average of shares outstanding during the year. On the assumption that all options outstanding at the end of the year were exercised, there would be no significant dilution of basic earnings per share.

(f) Change in fiscal year :

The company has changed the current fiscal year to the nearest Saturday to the end of January. In the past, the company's fiscal year ended on the nearest Saturday to the end of December.

2. Anti-Inflation program :

The company is subject to the restraints on income, dividends and compensation provided by the Anti-Inflation Act. This legislation with respect to income and compensation is effective from October 14, 1975 and is scheduled to be in force until December 31, 1978.

Results of operations for the 56 weeks ended January 29, 1977 are after giving effect to adjustments to reduce sales by \$990,000 with a corresponding credit to deferred revenue and an applicable deferred income tax debit of \$478,000. These adjustments arise from the application of the Anti-Inflation Act and its regulations which limit operating income before taxes to prescribed base period margins.

The company intends to reduce prices during the fiscal year ending January 28, 1978 to bring profits within allowable margins and has filed a compliance plan with the Anti-Inflation Board setting out the procedures to be followed to achieve this result. The effect on earnings of future price reductions will be offset by credits to sales as the provision for deferred revenue is extinguished.

3. Capital stock:

A total of 34,500 shares are reserved for issue under the employees' stock option plan. As at January 29, 1977 the following options were outstanding:

	Number of shares
Options at \$9.90 per share, expiring November 14, 1978	2,500
Options at \$9.00 per share, expiring August 22, 1980	1,500
Options at \$8.55 per share expiring May 6, 1981	5,000
	<u>9,000</u>

During the year options for 2,000 shares at \$4.6125 per share were exercised.

4. Retained earnings:

Retained earnings at January 29, 1977 includes \$42,108 of 1971 undistributed income on hand as defined by the Canadian Income Tax Act. This tax surplus can be distributed tax free to the shareholders after payment by the company of a 15% tax thereon. 1971 capital surplus of \$2,471 also included in retained earnings can be distributed tax free only after all the required tax has been paid on the 1971 undistributed income.

5. Long-term leases:

Long-term leases entered into by the company for the rental of store locations and warehouse facilities extend into the year 1992. The company has also entered into lease commitments for four new store locations. The majority of the store leases provide for payment to the lessor of a percentage of sales. Minimum annual rentals payable and estimated percentage rent payable where leases do not provide for minimum rents (exclusive of taxes and other occupancy charges) will aggregate approximately \$1,952,000 during year ending January 28, 1978.

6. Remuneration of directors and senior officers:

Direct remuneration paid to directors and senior officers of the company amounted to \$314,900 (1976 – \$293,800).

7. Income taxes:

	56 weeks ended January 29, 1977	53 weeks ended January 3, 1976
Current	\$2,465,869	\$2,465,213
Deferred (Note 1)	13,131	32,287
	<u>2,479,000</u>	<u>2,497,500</u>
Deferred (Note 2)	478,000	—
	<u>\$2,001,000</u>	<u>\$2,497,500</u>

8. Retirement arrangements:

The corporation has entered into arrangements with each of Sol Armel, William Drevnig, Albert Sherman and Jack Sherman, directors and senior officers of the corporation, pursuant to which on the retirement of each of them from full-time employment with the corporation but in no event before reaching the age of 65 years, such senior executive will provide, either directly or indirectly, ongoing consultation services for as long as such senior executive is able to provide such services up to a maximum of ten years, for an annual fee equal to sixty per cent of the average of the three highest years' earnings for such senior executive during the period of his full-time employment.

In addition, the corporation has also agreed to pay a retirement or death benefit in a lump sum to each such senior executive equal to three times the annual consulting fee calculated as noted above to be paid on the earliest of death, termination of the consulting arrangement, or upon such senior executive becoming unable to provide further services to the corporation.

Albert Sherman, the Secretary of the corporation, has attained the age of 65 years, but is still a full-time employee of the corporation.



Views of our store in the Toronto Eaton Centre.

STORE LOCATIONS

Toronto

151 Bloor Street W.
Toronto, Ontario

Bramalea City Centre
Bramalea, Ontario

2850 Dundas Street W.
Toronto, Ontario

Eaton Centre
Toronto, Ontario

Fairview Mall
Toronto, Ontario

Gerrard Square
Toronto, Ontario

3711 Keele Street
Downsview, Ontario

Lawrence Plaza
Toronto, Ontario

Rexdale Plaza
Rexdale, Ontario

Scarborough Town Centre
Scarborough, Ontario

Sherway Gardens
Etobicoke, Ontario

Shoppers' World
3003 Danforth Avenue
Toronto, Ontario

Square One Shopping Centre
Mississauga, Ontario

231 Yonge Street
Toronto, Ontario

Yorkdale Shopping Centre
Toronto, Ontario

Ontario

Georgian Mall
Barrie, Ontario

Quinte Mall
Belleville, Ontario

Lynden Park Mall
Brantford, Ontario

Burlington Mall
Burlington, Ontario

The Centre
Hamilton, Ontario

Jackson Square
Hamilton, Ontario

Wellington Square Centre
London, Ontario

Upper Canada Mall
Newmarket, Ontario

Bayshore Shopping Centre
Ottawa, Ontario

St. Laurent Shopping Centre
Ottawa, Ontario

Peterborough Square
Peterborough, Ontario

Station Mall
Sault Ste. Marie, Ontario

Eastgate Square Shopping Centre
Stoney Creek, Ontario

City Centre
Sudbury, Ontario

New Sudbury Shopping Centre
Sudbury, Ontario

Market Square
Kitchener, Ontario

Park Street Plaza
Thunder Bay, Ontario

Timmins Square
Timmins, Ontario

Devonshire Mall
Windsor, Ontario

Tecumseh Mall
Windsor, Ontario

Montreal

Alexis Nihon Plaza
Montreal, Quebec

Centre Laval
Laval, Quebec

Dorval Gardens Shopping Centre
Dorval, Quebec

Le Carrefour Laval
Laval, Quebec

Les Galeries D'Anjou
Ville D'Anjou, Quebec

Place Vertu
Montreal, Quebec

Place Ville Marie
Montreal, Quebec

Quebec

Les Galeries Hull
Hull, Quebec

Place Quebec
Quebec City, Quebec

Carrefour de L'Estrée
Sherbrooke, Quebec

Place Laurier
Ste. Foy, P.Q.

Centre D'Achat Les Rivières
Trois Rivières, P.Q.

Manitoba

Garden City Shopping Centre
West Kildonan, Manitoba

215 McDermott Avenue
Winnipeg, Manitoba

Polo Park Shopping Centre
Winnipeg, Manitoba

Unicity Fashion Square
Winnipeg, Manitoba

Nova Scotia

Mirmac Mall
Dartmouth, Nova Scotia
Halifax Shopping Centre
Halifax, Nova Scotia

New Brunswick

Regent Mall
Fredericton, New Brunswick
Champlain Place
Moncton, New Brunswick

Newfoundland

Atlantic Place
St. Johns, Newfoundland

Alberta

Chinook Centre
Calgary, Alberta

Marlborough Mall
Calgary, Alberta

Oxford Square
Calgary, Alberta

Edmonton Centre
Edmonton, Alberta

Londonderry Mall
Edmonton, Alberta

Shopper's Park Westmount
Edmonton, Alberta

Southgate Shopping Centre
Edmonton, Alberta

Lethbridge Centre
Lethbridge, Alberta

Saskatchewan

Midtown Plaza
Saskatoon, Saskatchewan

Northgate Shopping Centre
Regina (opening 1977)

British Columbia

Seven Oaks Shopping Centre
Abbotsford, B.C.

Brentwood Mall
Burnaby, B.C.

Orchard Park Shopping Centre
Kelowna, B.C.

Richmond Centre
Richmond, B.C.

Surrey Place
Surrey, B.C.

Pacific Centre
Vancouver, B.C.

Park Royal Shopping Centre
West Vancouver, B.C.

Hillside Shopping Centre
Victoria, B.C.

Pine Centre
Prince George, B.C.

